

Message Text

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PAGE 01 TEGUCI 02118 090407 Z

51

ACTION ARA-17

INFO OCT-01 ADP-00 L-03 AID-20 CIAE-00 COME-00 EB-11

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

CIEP-02 LAB-06 SIL-01 OMB-01 NSC-10 SS-15 STR-08

CEA-02 H-02 PA-03 PRS-01 USIA-12 AGR-20 RSR-01 /168 W

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R 082225 Z JUN 73

FM AMEMBASSY TEGUCIGALPA

TO SECSTATE WASHDC 4543

INFO AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY SAN JOSE

AMEMBASSY SAN SALVADOR

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GUATEMALA ALSO FOR ROCAP

E. O. 11652: N/ A

TAGS: EFIN HO IMF

SUBJ: IMF STANDBY AGREEMENT

1. SUMMARY: PRESENT IMF STANDBY AGREEMENT WILL LAPSE BUT NEW ONE WILL BE NEGOTIATED LATER TO COINCIDE WITH 1974 FISCAL YEAR. END SUMMARY.

2. IMF MISSION NOW REVIEWING WITH GOH EXPIRING STANDBY AGREEMENT. CONVERSATIONS WITH MISSION MEMBERS INDICATES THAT THERE ARE NO, REPEAT NO, MAJOR PROBLEMS FROM A FINANCIAL OR FISCAL VIEWPOINT. NET FOREIGN EXCHANGE RESERVES OF CENTRAL BANK ARE \$45 MILLION, A NEW HIGH FOR PAST SEVERAL YEARS. GOH FISCAL SITUATION IS ALSO GOOD AS REVENUES HAVE INCREASED OVER 1972 COLLECTIONS WHILE 1973 EXPENDITURES HAVE BEEN HELD UNDER CLOSE CONTROL. LACK OF MAJOR GOVERNMENT INVESTMENT

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PAGE 02 TEGUCI 02118 090407 Z

EXPENDITURES HAS ALSO CONTRIBUTED TO CURRENT SATISFACTORY FISCAL SITUATION. EXPECTED, HOWEVER, THAT GOVERNMENT INVESTMENT EXPENDITURES WILL SPEED UP DURING SECOND HALF OF YEAR.

3. IN VIEW PRESENT SATISFACTORY SITUATION GOH HAS INDICATED THAT IT PREFERS NOT, RPT NOT, SIGN NEW STANDBY AT PRESENT TIME BUT TO WAIT UNTIL JANUARY 1 TO SIGN NEW ONE YEAR AGREEMENT. THIS WOULD ALLOW CREDIT AND MONETARY POLICY TO BE COORDINATED WITH BUDGET YEAR AND WITH DEVELOPMENT PLAN NOW UNDER PREPARATION AS WELL AS TAKE INTO ACCOUNT ANY NEW TAX PROPOSALS.

4. IN VIEW THIS REQUEST, CURRENT STANDBY WILL NOT BE EXTENDED BUT THERE WILL BE NEGOTIATIONS WITH IMF IN OCTOBER OR NOVEMBER TO AGREE ON AGREEMENT COVERING CY 1974. MEANWHILE IMF WILL PROVIDE TECHNICAL ASSISTANCE TO GOH BY SUPPLYING NATIONAL ACCOUNTS SPECIALIST, TAX ADMINISTRATION EXPERT, ETC.

5. COMMENT: UNTIL GOVERNMENT DEVELOPMENT AND INVESTMENT PLAN FOR 1974 PREPARED IT IS DIFFICULT FOR IMF AND GOH TO DRAW UP FISCAL AND MONETARY PROGRAM. IN VIEW OF ACCEPTABLE SITUATION GOH HAS OPTED TO WAIT A FEW MONTHS BEFORE NEGOTIATING WITH IMF A NEW STANDBY. CURRENT FAVORABLE FOREIGN EXCHANGE SITUATION DUE TO LOW LEVEL OF INVESTMENT EXPENDITURES AND TO HEAVY FIRST QUARTER EXPORTS OF COFFEE. AS INVESTMENT INCREASES AND COFFEE SALES FALL OFF THERE WILL BE GREATER PRESSURE OF B/ P. ALSO, RECENT BANANA BLOWDOWN, DROUGHT PROBLEMS AND EVER INCREASING SUPPLIER' S PRICES WILL PUT ADDITIONAL PRESSURE ON AVAILABLE RESOURCES DURING LAST HALF OF YEAR. SANCHEZ

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